

Sources and Uses of Funds of Foreign Affiliates of U.S. Firms, 1967-68

Foreign affiliates of U.S. firms had increased sources and uses of funds in 1968. However, their reliance on funds from the U.S. was reduced, probably reflecting the impact of the Foreign Direct Investment Program.

THIS article presents data on sources and uses of funds of foreign affiliates of U.S. firms for 1967 and 1968.¹ Sources and uses totaled \$10.7 billion in 1968 (excluding income paid out), a rise of \$1.6 billion over 1967. Most of the rise was used for building up inventories and current receivables, while investment in property, plant and equipment rose only slightly from 1967. Funds obtained from the United States fell, probably reflecting the impact of the Foreign Direct Investment Program which was made mandatory in 1968. Funds obtained abroad rose; while the Program may have contributed to this rise, other factors were probably more important. Retained earnings and depreciation also rose, but remained about the same portion of total sources.

The data presented here are related to the capital and income flows in the balance of payments accounts, but there are differences in concept and in coverage. Essentially, sources and uses accounts are oriented towards an overview of the financial developments of the foreign affiliates, rather than only flows between U.S. parents and affiliates. Sources of funds include all retained earnings, depreciation and depletion, all funds received from the United States (not only those the affiliates re-

ceived from their U.S. parents), and funds received from foreigners. Uses of funds include property, plant, and equipment expenditures of the affiliates, changes in inventories and in current receivables. The relation between balance of payments flows and these data are discussed in detail at the end of this article.

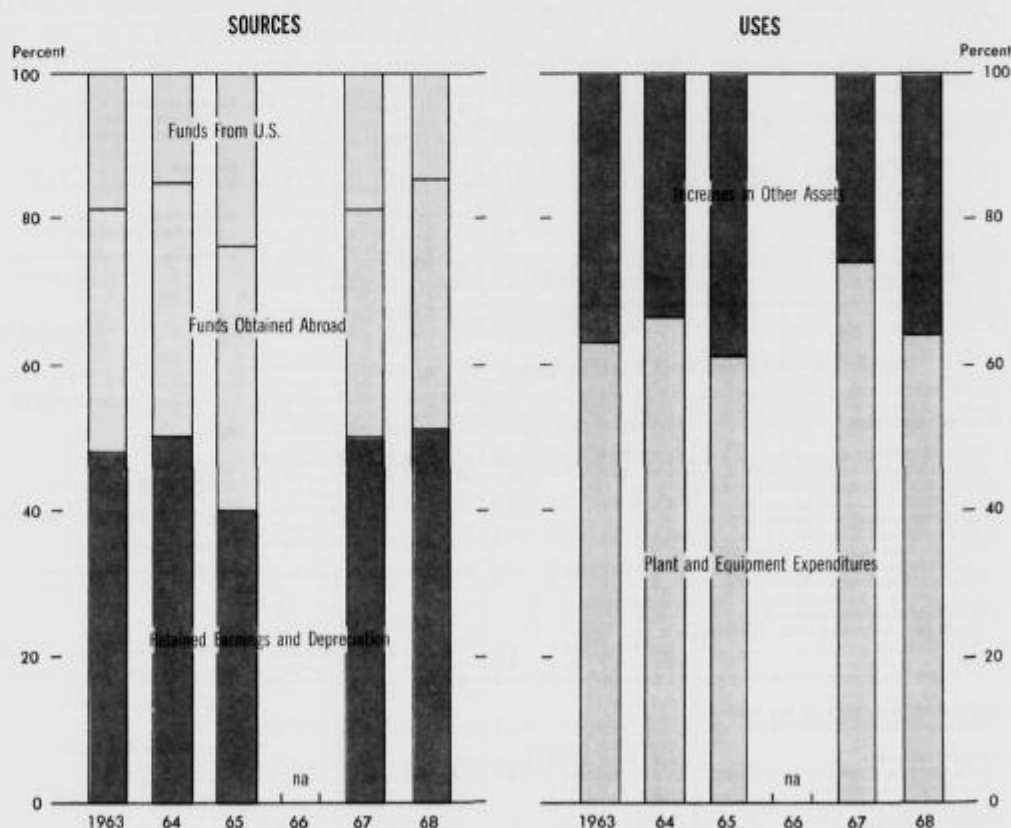
In respect to coverage, the data discussed here are based on annual reports

from about 450 U.S. parent companies covering approximately 4,000 foreign affiliates; in contrast, the balance of payments reports cover more than twice as many parent firms and foreign affiliates. Furthermore, this report is limited to three industries—mining and smelting, petroleum, and manufacturing—while all industries are included in the balance of payments data.

No attempt has been made to expand

CHART 8

Foreign Affiliates' Adjusted Sources and Uses of Funds: Percent Distribution*



* Adjusted sources or adjusted uses of funds equals total sources or uses less income paid out. The adjusted amounts represent the funds available for internal use by the affiliates.

U.S. Department of Commerce, Office of Business Economics

1. The last report, covering 1965, appeared in the SURVEY in January 1967.

the 1967 and 1968 reported data on sources and uses to figures representing the universe of foreign affiliates, nor is the data for 1963-65, which is also included, expanded. While these data do not constitute a measure of total flows or absolute amounts, they do represent a reasonably consistent, but unmatched, sample of larger firms, giving a relatively accurate impression of the trend in the foreign affiliates' sources and uses of funds. When originally published, the 1963-65 data were blown up on the basis of the benchmark given by the 1957 census of direct investments. However, it was felt that 1957 was not a suitable benchmark for the 1967-68 data. Sources and uses data for a new base year have been collected—along with much other information—in the census of U.S. direct investment for 1966; these data cover about 3,500 U.S. parents and almost 25,000 foreign affiliates. When processing of the 1966 census is completed, the sources and uses figures for 1967 and 1968 will be revised to incorporate the new benchmark information.

Uses

Total uses of funds amounted to \$14.5 billion in 1968, of which \$3.7 billion was income paid out; if this is excluded,

adjusted uses were \$10.7 billion (tables 1 and 2). Of the adjusted total, 64 percent went for expenditures on property, plant, and equipment, 8 percent to finance increased inventories, 14 percent to finance increased current receivables, and 14 percent for other assets.

The rise in adjusted uses in 1968 was \$1.6 billion. However, expenditures for property, plant, and equipment increased only \$0.1 billion. There was consequently a fall in such expenditures as a percent of adjusted uses in 1968. Expenditures in the developed countries showed sizable declines in 1968, offset by increases in the less developed countries. The drop in Europe was particularly noticeable. This may have been partly related to the direct investment program, since controls are more stringent on outflows to developed countries. However, cyclical factors were probably more important. Economic growth in Europe was quite slow in 1967 (particularly in Germany), and the renewal of growth in 1968 evidently did not require an acceleration in plant and equipment expenditures, given the amount of unused capacity.

Financing increased inventories took only 2 percent of adjusted uses of funds in 1967, down sharply from the 1965 share, but jumped to 8 percent in 1968.

A substantial part of the increase in inventories in 1968 took place in Europe, and particularly in the United Kingdom, with a shift from liquidation of inventories in 1967 to a sizable build-up in 1968. Current receivables showed a similar pattern, with a particularly noticeable shift again in the United Kingdom.

While the shares of funds used for inventories and current receivables move rather erratically, the reduction of both in 1967 and their recovery in 1968 may have been associated with two particular developments. The first is that business conditions in Europe were relatively slow in 1967, which would reduce the need for increases in inventories and receivables. The second factor was probably anticipations of the devaluation of sterling (which occurred in late 1967) and the accompanying leads and lags in trade payments.

Funds obtained abroad by affiliates in the United Kingdom showed a sharp drop in 1967 as a percent of adjusted sources, and then recovered in 1968. The swing was concentrated in short-term liabilities to nonbanks, a good part of which is trade credits (table 3). To the extent that such credits were denominated in dollars, British affiliates would have had an incentive to reduce

Table 1.—Sources and Uses of Funds of U.S. Owned Foreign Affiliates, 1965, 1967-68

(Billion dollars or percent)

	SOURCES OF FUNDS													
	Total sources	Income paid out	Adjusted sources ¹	Percent	Retained earnings	Percent	Depreciation and depletion	Percent	Funds from U.S.	Percent	Funds obtained abroad	Percent	Other sources and adjustments ²	Percent
Total:														
1965.....	12.5	2.1	0.4	(100)	1.0	(10)	2.7	(20)	2.8	(24)	3.2	(34)	0.2	(3)
1967.....	12.5	2.4	0.1	(100)	1.2	(12)	3.4	(37)	1.8	(10)	2.4	(20)	.6	(6)
1968.....	14.5	3.7	10.7	(100)	1.0	(15)	3.0	(30)	1.0	(15)	3.3	(31)	.3	(3)
Europe:														
1965.....	4.1	.5	3.5	(100)	.2	(0)	1.0	(38)	.5	(25)	1.4	(40)	.1	(1)
1967.....	3.7	.5	3.2	(100)	.1	(1)	1.3	(40)	.8	(26)	.9	(28)	.1	(3)
1968.....	4.3	.5	3.8	(100)	.3	(5)	1.5	(41)	.5	(15)	1.4	(35)	.1	(3)
	USES OF FUNDS													
	Total uses	Income paid out	Adjusted uses ¹	Percent	Plant and equipment expenditures	Percent	Inventories	Percent	Current receivables	Percent	Other assets	Percent		
Total:														
1965.....	12.5	3.1	0.4	(100)	5.7	(61)	1.2	(13)	1.3	(14)	1.2	(12)		
1967.....	12.5	3.4	0.1	(100)	6.8	(174)	.2	(2)	.5	(10)	1.2	(14)		
1968.....	14.5	3.7	10.7	(100)	6.0	(104)	.8	(8)	1.5	(14)	1.0	(14)		
Europe:														
1965.....	4.1	.5	3.5	(100)	2.1	(59)	.4	(11)	.5	(16)	.5	(15)		
1967.....	3.7	.5	3.2	(100)	2.0	(81)	-.1	(-4)	.3	(10)	.4	(12)		
1968.....	4.3	.5	3.8	(100)	2.4	(102)	.3	(8)	.7	(19)	.4	(11)		

1. Adjusted sources or adjusted uses of funds equals total sources or uses less income paid out. The adjusted amounts represent the funds available for internal use by the affiliates.

2. This item reflects funds obtained through the sale of fixed assets, changes in certain reserve accounts, valuation adjustments, and residual outlays unidentified by reporters.

such liabilities in order to avoid later repayment that would be more expensive in terms of sterling; for the same reason, foreigners would not have wished to extend credits denominated in sterling. Such a reduction in borrowing by British affiliates may have required a reduction in their inventories and current receivables, unless other sources of funds were available. Domestic sources in the United Kingdom were particularly difficult to tap since lending

(in sterling) by British banks was restricted by a credit squeeze.

Although the amount of funds used for other assets increased in 1968, the percentage share of these items of adjusted uses remained unchanged at 14 percent. No details are collected on the items in this category, which also contains unidentified balancing items.

Sources

Adjusted sources rose \$1.6 billion in

1968, of which internally generated funds—retained earnings and depreciation and depletion allowances—contributed about \$1.0 billion. However, in both 1967 and 1968, foreign affiliates provided for about half of their financing needs (exclusive of income paid out) from these internally generated funds. This had been the case since 1963, except for 1965 when the proportion temporarily declined to 40 percent. Retained earnings rose as a proportion

Table 2.—Sources and Uses of Funds of U.S. Owned Foreign Affiliates by Area and

(Millions of

	SOURCES OF														
	Total sources					Net income					Depreciation and depletion				
	1963	1964	1965	1967	1968	1963	1964	1965	1967	1968	1963	1964	1965	1967	1968
All areas	8,386	9,747	12,610	12,542	14,498	3,351	3,805	4,112	4,889	5,383	2,644	2,498	2,745	3,387	3,864
Mining and smelting	877	105	1,188	1,428	1,925	374	514	581	641	574	183	216	229	270	208
Petroleum	4,312	3,813	4,747	5,800	6,372	1,814	1,735	1,828	2,171	2,328	806	1,004	1,058	1,271	1,477
Manufacturing	3,202	4,928	6,675	6,315	6,201	1,172	1,556	1,702	1,867	1,983	655	1,210	1,423	1,846	2,001
Canada	1,686	2,408	2,654	2,537	2,611	675	883	852	825	1,027	552	623	681	800	864
Mining and smelting	333	480	444	418	727	161	220	241	228	319	96	102	105	115	127
Petroleum	571	606	681	794	723	121	184	162	223	210	302	162	214	231	230
Manufacturing	762	1,063	1,560	1,316	1,161	393	469	449	420	498	248	350	361	454	507
Latin American Republics and Other Western Hemisphere	1,527	1,876	2,202	1,940	2,697	744	834	933	1,030	1,178	453	567	588	575	596
Mining and smelting	107	250	317	584	801	145	325	248	401	411	70	74	50	85	80
Petroleum	835	810	852	733	137	475	524	552	478	496	260	207	274	304	310
Manufacturing	405	797	1,033	622	759	194	185	293	179	271	108	130	148	163	197
Europe:															
European Economic Community	1,507	1,778	2,295	2,414	2,385	293	322	318	382	398	421	507	538	782	883
Mining and smelting	1	1	3	1	1	1	1	1	1	1	1	1	1	1	1
Petroleum	836	817	888	763	560	47	30	30	31	51	10	184	142	175	220
Manufacturing	672	1,257	1,394	1,651	1,797	246	351	348	343	448	322	372	448	506	572
Other Europe including U.K.	1,163	1,485	1,781	1,332	1,968	338	353	337	243	412	289	347	386	515	583
Mining and smelting	5	8	13	8	17	4	3	6	2	8	1	4	4	4	4
Petroleum	329	377	444	508	585	40	22	19	102	178	83	18	89	125	100
Manufacturing	819	1,070	1,322	745	1,372	294	328	312	131	434	186	245	289	386	484
Other areas	2,822	2,662	2,577	4,339	4,848	1,306	1,293	1,513	1,898	2,388	349	514	583	714	839
Mining and smelting	142	187	288	410	309	44	57	58	155	137	17	35	35	63	76
Petroleum	1,941	1,604	2,313	2,162	2,467	1,103	1,025	1,213	1,804	1,940	224	343	367	435	508
Manufacturing	444	771	876	671	1,072	182	210	242	240	282	108	136	181	217	251
	USES OF														
	Total uses					Plant and equipment expenditures					Inventories				
	1963	1964	1965	1967	1968	1963	1964	1965	1967	1968	1963	1964	1965	1967	1968
All areas	8,386	9,747	12,610	12,542	14,498	2,822	4,613	5,489	6,774	6,889	585	933	1,203	224	331
Mining and smelting	877	105	1,188	1,428	1,925	368	411	523	717	611	—1	8	34	68	49
Petroleum	4,312	3,813	4,747	5,800	6,273	1,685	1,889	2,040	2,622	2,848	32	54	63	120	223
Manufacturing	3,202	4,928	6,675	6,315	6,201	1,800	2,315	3,077	3,437	3,130	424	287	1,057	30	509
Canada	1,686	2,408	2,654	2,537	2,611	858	1,165	1,384	1,612	1,479	51	165	281	125	81
Mining and smelting	333	480	444	418	727	181	221	219	279	322	—10	—17	43	20	14
Petroleum	571	606	681	794	723	433	302	471	546	538	12	1	12	20	23
Manufacturing	762	1,063	1,560	1,316	1,161	344	653	712	789	610	49	181	230	80	46
Latin American Republics and other Western Hemisphere	1,527	1,876	2,202	1,940	2,697	586	687	735	835	1,128	26	141	328	1	168
Mining and smelting	107	250	317	584	801	88	90	130	211	370	4	6	20	18	19
Petroleum	835	810	852	733	137	280	280	208	362	360	1	—16	27	—33	20
Manufacturing	405	797	1,033	622	660	219	200	398	334	307	31	153	272	15	129
Europe:															
European Economic Community	1,507	1,778	2,295	2,414	2,385	850	967	1,175	1,434	1,321	853	177	350	38	114
Mining and smelting	1	1	3	1	1	1	1	1	1	1	1	1	1	1	1
Petroleum	836	817	888	763	560	355	308	276	614	378	51	13	15	—15	58
Manufacturing	672	1,257	1,394	1,651	1,797	495	589	100	1,126	148	103	163	145	—17	56
Other Europe including U.K.	1,163	1,485	1,781	1,332	1,968	898	635	507	1,067	1,043	834	275	227	—168	213
Mining and smelting	5	8	13	8	17	2	2	4	5	7	1	1	1	1	1
Petroleum	329	377	444	508	585	224	218	258	339	411	4	41	—0	21	21
Manufacturing	819	1,070	1,322	745	1,372	373	403	651	683	626	120	283	242	—191	188
Other areas	2,822	2,662	2,577	4,339	4,848	570	1,088	1,477	1,638	1,914	91	178	207	228	253
Mining and smelting	142	187	288	410	309	71	79	227	223	200	5	16	14	23	17
Petroleum	1,941	1,604	2,313	2,162	2,467	420	468	773	901	1,167	14	23	25	63	102
Manufacturing	444	771	876	671	1,072	179	360	477	364	542	72	137	108	134	134

of adjusted sources in 1968 but depreciation and depletion fell slightly.

There was a sizable decline from 1965 to 1968 in the financing of foreign affiliates' operations from U.S. sources—parent companies, U.S. banks, other nonaffiliated U.S. residents, and sales in the United States of the affiliates' securities. U.S. sources in 1965, at \$2.3 billion, accounted for 24 percent of adjusted sources. The percentage declined to 19 percent in 1967 and 15 percent in

1968, when funds from the United States amounted to only \$1.6 billion, \$0.1 billion less than in 1967. The decline was concentrated mainly in Europe, particularly in manufacturing affiliates. Canadian affiliates also used a smaller amount of U.S. funds in 1968, but affiliates in Latin America and in the oil producing countries increased their financing from U.S. sources.

The shift away from U.S. funds was probably associated with the Foreign

Direct Investment Program which became mandatory in 1968. In fact, these figures probably understate the impact of the program since "funds from the United States" include funds borrowed abroad by U.S. parent companies which are then invested in the foreign affiliates. Under the program, such borrowing offsets the outflow from the United States and thus helps the balance of payments.

"Funds obtained abroad" rose almost \$1.0 billion in 1968 and accounted for 31 percent of adjusted sources. This was a higher proportion than in 1967 (26 percent), but still below the 1965 figure (34 percent). Some of the shift in 1968 may have been associated with the direct investment program becoming mandatory. However, there was little change in 1968 in the volume of such flows in the EEC countries where the program was most stringent. The shifts were largest in Latin America (where the program was least stringent) and in Europe other than the EEC. This includes the United Kingdom—where the shift was most likely associated with a reversal of the flows in 1967 that had been generated by anticipations of the devaluation of sterling. The increases in inventories and current receivables associated with the recovery in business conditions mentioned earlier may have also been a factor increasing the need for borrowing from abroad.

Selected Industry, 1963-65, 1967-68

(Dollars)

FUNDS

Funds from the United States					Funds obtained abroad					Other sources and adjustments				
1963	1964	1965	1967	1968	1963	1964	1965	1967	1968	1963	1964	1965	1967	1968
1,807	1,040	2,358	1,752	1,647	1,741	2,181	3,154	2,354	3,358	127	216	244	451	296
31	20	110	88	273	99	144	230	138	314	-2	15	13	18	65
787	820	1,025	1,002	1,036	000	478	892	1,125	1,187	124	125	117	230	47
288	400	1,238	002	238	101	1,481	2,117	1,129	1,838	6	71	115	122	141
188	184	551	242	127	241	207	497	423	538	29	88	75	138	59
0	31	16	-30	114	73	57	75	10	168	-5	10	8	38	11
111	48	219	106	43	09	04	22	200	212	30	17	23	30	17
08	87	216	181	-40	78	185	400	198	181	4	61	34	04	26
183	15	123	374	335	180	487	580	99	478	37	13	49	44	63
-23	-57	-35	30	180	-3	25	10	16	71	2	2	1	40	48
89	-37	-86	55	85	-50	3	124	-129	82	41	22	48	28	6
120	108	282	82	120	103	379	360	212	378	-0	-10	20	-25	3
344	424	581	375	164	517	404	336	834	849	36	26	30	61	48
187	217	177	186	128	273	174	195	382	247	30	23	4	38	13
54	206	388	180	37	344	226	990	453	803	0	8	30	22	37
181	282	319	437	333	446	463	614	65	501	-2	44	23	60	68
1	1	6	2	2	-2	44	6	-3	1	-3	31	3	18	13
88	177	160	407	332	122	44	181	189	110	1	13	20	43	44
14	24	138	20	-1	326	429	420	-45	381	1	13	20	43	44
418	341	686	523	627	427	515	745	951	974	37	39	47	148	41
50	24	125	80	67	22	29	129	10	74	1	2	3	20	10
384	105	423	254	426	284	188	288	557	380	30	23	30	110	-2
72	102	120	188	122	151	270	328	308	320	1	3	15	18	27

FUNDS

Current receivables					Other assets					Income paid out				
1963	1964	1965	1967	1968	1963	1964	1965	1967	1968	1963	1964	1965	1967	1968
923	793	1,343	918	1,467	787	842	1,277	1,225	1,486	2,413	2,752	3,137	3,388	3,743
31	40	40	12	45	97	131	130	80	358	218	307	251	808	370
412	108	348	473	375	303	85	490	825	574	1,833	1,770	1,865	1,053	2,251
480	630	914	433	1,047	317	435	017	540	430	583	685	030	878	622
167	140	316	306	203	161	174	182	189	348	339	385	479	481	498
12	22	16	17	18	53	82	48	-03	214	87	132	122	159	178
23	44	41	40	78	17	14	30	74	-30	78	84	90	107	103
123	80	299	40	107	81	78	108	175	104	164	151	267	213	230
68	228	353	52	267	68	101	146	217	280	781	715	743	841	843
7	8	8	-22	3	13	17	10	71	01	87	120	134	386	312
11	37	34	-25	30	1	-6	12	105	04	573	512	511	425	411
53	184	210	00	298	61	80	116	42	105	01	73	98	111	120
203	331	238	234	391	136	208	414	233	244	107	333	317	368	283
00	77	2	-2	47	83	92	169	35	69	60	43	27	19	17
107	130	159	183	345	55	175	310	100	174	117	100	200	250	274
180	188	279	88	335	185	89	123	182	178	143	222	225	203	202
1	1	-2	1	1	1	1	1	1	1	1	1	1	1	1
31	20	83	03	04	47	40	107	138	87	23	40	27	7	7
148	164	216	38	281	00	40	24	42	20	119	178	182	104	100
384	102	217	424	278	248	9	383	484	554	1,212	1,234	1,373	1,033	1,397
13	38	13	21	24	20	32	30	46	41	33	42	27	101	82
242	-3	134	258	130	185	-10	182	278	340	1,109	1,601	1,207	1,308	1,713
40	88	70	147	107	74	48	05	79	148	71	95	90	107	112

Concepts

Definitional differences between the balance of payments and the sources and uses statistics are discussed below. There are also differences due to a number of accounting and statistical problems, including foreign exchange losses, different effective exchange rates used to convert the accounts to U.S. dollars, and different accounting periods.

Data on net income, income paid out, and retained income in the sources and uses statement include not only the U.S. parents' share but also the share of foreign owners. Net income is reported after depreciation and depletion charges. The balance of payments statistics, on the other hand, take account only of the income paid out

(or retained earnings as used in calculating the investment position) that represents the U.S. share in the ownership of the foreign enterprise and are reported after depreciation but before depletion charges.

The data classified under "funds from United States" for sources include the financing of foreign affiliates by their U.S. parent companies and sales

of new securities to the public, funds for the establishment of a new enterprise by a parent, funds from other U.S. residents—such as lending by U.S. financial institutions (both private and government)—and the extension of credit by U.S. suppliers. The latter two items are not included in direct investment capital outflows (although they are included, along with transac-

tions with nonaffiliated foreigners, elsewhere in the balance of payments). On the other hand, a significant part of direct investment net capital flows, as reported for balance of payments purposes, is not included in the sources of funds of affiliates. In particular, expenditures by parent companies for the acquisition of foreign business firms or minority interests are excluded because

Table 3.—Financing of Affiliates from External Foreign Sources, Area and Type of Financing by Selected Industry, 1963-65, 1967 and 1968

(Millions of dollars)

	Total selected industries					Mining and smelting					Petroleum					Manufacturing				
	1963	1964	1965	1967	1968	1963	1964	1965	1967	1968	1963	1964	1965	1967	1968	1963	1964	1965	1967	1968
All areas	1,741	2,394	3,154	3,384	3,338	96	140	236	129	314	586	778	852	1,135	1,186	942	1,583	2,117	1,120	1,838
Funds from foreign affiliates	90	109	248	431	182	12	-8	-0	32	40	-2	42	103	227	94	79	70	60	171	70
Borrowing from financial institutions	278	582	1,183	942	842	0	-7	53	-11	80	178	128	101	416	306	90	300	1,020	431	360
Long-term	n.s.s.	n.s.s.	535	649	380	n.s.s.	n.s.s.	44	-25	71	n.s.s.	n.s.s.	72	230	186	n.s.s.	n.s.s.	518	342	182
Short-term	n.s.s.	n.s.s.	648	293	202	n.s.s.	n.s.s.	10	14	14	n.s.s.	n.s.s.	29	202	40	n.s.s.	n.s.s.	510	117	108
Other foreign liabilities	1,062	1,224	1,401	780	2,288	85	137	181	71	136	370	130	616	345	802	630	806	828	368	1,201
Long-term	n.s.s.	n.s.s.	140	223	306	n.s.s.	n.s.s.	40	32	8	n.s.s.	n.s.s.	28	102	102	n.s.s.	n.s.s.	73	95	124
Short-term	n.s.s.	n.s.s.	1,320	558	1,982	n.s.s.	n.s.s.	100	40	128	n.s.s.	n.s.s.	487	243	807	n.s.s.	n.s.s.	754	271	1,127
Issue of equity securities	312	297	282	226	254	17	18	30	36	62	144	60	-6	60	61	182	210	190	132	162
Canada	211	297	487	433	539	73	57	76	19	166	50	65	22	296	212	78	185	406	198	181
Funds from foreign affiliates	-10	-2	17	-14	6	1	-6	2	2	-	-26	8	7	5	-	7	-4	0	-22	0
Borrowing from financial institutions	61	87	116	278	84	-	-4	7	2	02	50	13	-21	10	80	2	46	320	172	-58
Long-term	n.s.s.	n.s.s.	68	129	120	n.s.s.	n.s.s.	0	2	02	n.s.s.	n.s.s.	-21	16	28	n.s.s.	n.s.s.	68	82	32
Short-term	n.s.s.	n.s.s.	49	92	-36	n.s.s.	n.s.s.	1	-	-	n.s.s.	n.s.s.	-	2	54	n.s.s.	n.s.s.	41	90	-10
Other foreign liabilities	101	210	318	119	414	06	60	58	15	184	36	25	44	08	108	00	181	216	37	201
Long-term	n.s.s.	n.s.s.	40	65	101	n.s.s.	n.s.s.	15	15	40	n.s.s.	n.s.s.	13	10	75	n.s.s.	n.s.s.	12	31	-32
Short-term	n.s.s.	n.s.s.	278	53	312	n.s.s.	n.s.s.	43	-	06	n.s.s.	n.s.s.	31	80	33	n.s.s.	n.s.s.	204	0	215
Issue of equity securities	48	37	47	47	35	0	7	8	-	-	32	17	-7	30	24	10	13	46	11	11
Latin American Republics and other Western Hemisphere	210	407	580	86	476	-3	28	16	16	71	-38	3	121	-129	32	163	379	364	212	373
Funds from foreign affiliates	-50	6	31	-27	70	-1	-2	-7	0	41	-53	29	30	-00	15	-3	-21	8	26	14
Borrowing from financial institutions	15	80	150	50	182	1	1	2	-10	1	2	2	21	1	3	12	57	120	61	170
Long-term	n.s.s.	n.s.s.	50	-2	12	n.s.s.	n.s.s.	4	-11	-6	n.s.s.	n.s.s.	8	-2	-16	n.s.s.	n.s.s.	48	11	31
Short-term	n.s.s.	n.s.s.	101	54	171	n.s.s.	n.s.s.	1	1	5	n.s.s.	n.s.s.	12	3	18	n.s.s.	n.s.s.	78	20	148
Other foreign liabilities	18	261	283	38	178	-7	21	18	16	26	-4	-29	72	-72	13	100	206	163	15	130
Long-term	n.s.s.	n.s.s.	22	-7	24	n.s.s.	n.s.s.	4	4	5	n.s.s.	n.s.s.	3	-33	-1	n.s.s.	n.s.s.	16	23	20
Short-term	n.s.s.	n.s.s.	200	46	154	n.s.s.	n.s.s.	14	11	31	n.s.s.	n.s.s.	69	-39	14	n.s.s.	n.s.s.	177	73	110
Issue of equity securities	53	61	35	37	40	4	3	-	5	3	2	1	2	2	-	46	47	33	20	42
Europe																				
European Economic Community	517	461	735	831	849	-	-	1	-1	-1	272	174	136	362	247	244	320	608	463	603
Funds from foreign affiliates	30	154	54	172	161	-	-	-	-	-	32	29	48	17	67	24	66	-14	154	84
Borrowing from financial institutions	94	78	373	414	22	-	-	-	-	-	60	22	32	207	-27	35	51	341	148	60
Long-term	n.s.s.	n.s.s.	278	120	4	-	-	-	-	-	n.s.s.	n.s.s.	48	37	28	n.s.s.	n.s.s.	210	92	-25
Short-term	n.s.s.	n.s.s.	105	285	18	-	-	-	-	-	n.s.s.	n.s.s.	-30	230	-55	n.s.s.	n.s.s.	122	55	73
Other foreign liabilities	268	200	308	227	621	-	-	1	-1	-1	168	48	105	60	102	130	142	212	140	421
Long-term	n.s.s.	n.s.s.	24	-2	91	-	-	-	-	-	n.s.s.	n.s.s.	72	-11	20	n.s.s.	n.s.s.	12	10	63
Short-term	n.s.s.	n.s.s.	283	230	530	-	-	1	-1	-1	n.s.s.	n.s.s.	83	100	104	n.s.s.	n.s.s.	130	128	305
Issue of equity securities	18	67	41	21	54	-	-	-	-	-	43	8	-	0	14	66	51	60	12	40
Other Europe including United Kingdom	446	469	614	65	681	-2	-	6	-2	4	123	46	181	106	116	385	428	425	-42	391
Funds from foreign affiliates	65	-18	118	142	-35	-	-	-	-	-	44	-25	07	125	-11	21	8	20	17	-54
Borrowing from financial institutions	31	282	319	-31	70	-1	-1	-	-	-	32	32	18	40	28	35	160	300	-72	29
Long-term	n.s.s.	n.s.s.	136	01	20	n.s.s.	n.s.s.	-	-	-	n.s.s.	n.s.s.	37	64	13	n.s.s.	n.s.s.	25	37	20
Short-term	n.s.s.	n.s.s.	184	-122	31	n.s.s.	n.s.s.	-	-	-	n.s.s.	n.s.s.	-10	-15	15	n.s.s.	n.s.s.	204	-109	13
Other foreign liabilities	363	264	180	-88	420	-1	1	5	-5	2	58	20	04	-83	10	244	221	87	-26	342
Long-term	n.s.s.	n.s.s.	18	6	30	n.s.s.	n.s.s.	1	-	-1	n.s.s.	n.s.s.	1	-4	1	n.s.s.	n.s.s.	12	12	30
Short-term	n.s.s.	n.s.s.	168	-94	400	n.s.s.	n.s.s.	4	-6	2	n.s.s.	n.s.s.	02	61	10	n.s.s.	n.s.s.	72	-37	312
Issue of equity securities	47	66	53	41	30	-	-	-	-	-	21	6	1	3	6	26	50	21	38	24
Other areas	427	516	748	944	974	22	58	129	89	74	264	165	308	557	580	161	270	328	386	329
Funds from foreign affiliates	04	-38	38	166	-10	12	-	-1	24	-1	22	-57	-0	120	-5	30	21	37	-4	-4
Borrowing from financial institutions	94	381	226	237	282	8	-2	42	-5	22	96	118	90	01	121	32	66	133	161	149
Long-term	n.s.s.	n.s.s.	110	163	204	n.s.s.	n.s.s.	30	-17	14	n.s.s.	n.s.s.	-8	50	104	n.s.s.	n.s.s.	28	120	80
Short-term	n.s.s.	n.s.s.	110	84	70	n.s.s.	n.s.s.	7	12	7	n.s.s.	n.s.s.	98	42	17	n.s.s.	n.s.s.	48	33	54
Other foreign liabilities	212	204	427	489	810	-2	62	07	47	6	121	105	240	321	458	103	131	128	121	159
Long-term	n.s.s.	n.s.s.	30	107	80	n.s.s.	n.s.s.	20	14	-20	n.s.s.	n.s.s.	-1	133	61	n.s.s.	n.s.s.	16	20	34
Short-term	n.s.s.	n.s.s.	391	322	551	n.s.s.	n.s.s.	47	34	41	n.s.s.	n.s.s.	242	188	305	n.s.s.	n.s.s.	102	100	115
Issue of equity securities	60	77	67	79	01	0	8	31	32	40	44	21	-3	8	7	18	48	38	41	35

N.S.S. Not shown separately.

they go not to the affiliates but rather to stockholders of the affiliates. Thus, they do not figure in the financial flows entering an analysis of sources and uses of funds of the affiliates themselves. Also, earnings left abroad by branches of U.S. companies are recorded in the balance of payments as income (paid out) and as direct investment capital outflows; in sources and uses data they are treated simply as retained earnings.

"Funds obtained abroad" include funds obtained by foreign affiliates from other foreign affiliates of the U.S. reporter. Also included, on a net basis, are funds obtained from foreign financial institutions, trade credits from foreigners, sales or purchases of capital stock of the foreign affiliate by foreigners, and other increases in liabilities to foreigners. The sources category "other sources and adjustments" includes sales of fixed assets, changes in certain reserve accounts, unidentifiable sources, and adjustments for unrealized gains or losses due to exchange rate variations which the reporter was unable to exclude from the other individual sources categories.

Plant and equipment expenditures represent gross outlays for fixed capital. Expenditures include acquisitions of existing fixed assets by affiliates, but exclude the sale of fixed assets (which is reported in sources as "other sources and adjustments").

The use of funds for "inventories" refers to the net increase or decrease in book value of warehouse and factory stocks and in materials in process other than those classified as fixed assets by the reporter. The increase in "current receivables" is the net change in receivables due from foreign customers. (To the extent possible, receivables from nonaffiliated customers in the United States are netted against the affiliates' payables in "funds from the United States" under sources.) The net change in "other assets" includes all other current assets, other non-fixed assets, and unspecified transactions.

Comparison with other data

In order to test whether these data on affiliates' sources and uses of funds maintain a reasonable relationship to other information on direct investment

generated by OBE, an attempt was made, as far as possible, to reconcile the two sets of data. The results are shown in table 4. While there are distinct definitional differences that cannot be adjusted for, the comparison should give an indication of the extent to which the sample sources and uses data maintains a consistent relationship to the total flows reported in the balance of payments statistics.

The initial comparison is between direct investment capital flows (line 33 of table 1 in the balance of payments accounts) and the funds reported as coming from the United States in the sources and uses of funds statistics. The direct investment figures are adjusted to exclude flows related to placement and amortization of foreign affiliates' securities held by U.S. residents other than the parent firms, and all liquidations of investments and acquisitions of existing foreign enterprises.

Funds from the United States reported as a source in the sources and uses are adjusted to exclude the portion of funds coming from the United States from other than parent companies.

Comparison of the two sets of data on capital flows reveals that the balance of payments data show consistently higher outflows, partly reflecting much

more complete coverage of the balance of payments reports (950 reporting parents compared with 450 parents). The balance of payments figures also include reinvested earnings in branches, while "funds from the United States" do not. The difference in dollar amounts for the three industries combined is in the range of \$600 million to \$750 million a year, with the exception of 1967 when the difference was larger. Available information gives no clear explanation of the 1967 figures. When 1968 and 1969 data are available, more detailed reconciliations will be possible.

The earnings of foreign affiliates as derived from the balance of payments reports (column 3) represent the U.S. share of earnings for all U.S. foreign direct investments in the selected industries. These are compared to total earnings, both U.S. and foreign, given by the sample of affiliates reporting sources and uses information (column 4). While the differences in coverage and definition make any comparison of magnitudes meaningless, the rather steady ratios between the different sets of data, even at the industry level, indicate that at the very least there is a reasonable degree of consistency between balance of payments data and the reports on sources and uses of funds.

Table 4.—Comparisons of Sources and Uses Data With Related Direct Investment Data
(Dollar values in millions)

	Capital flows				Earnings		
	Adjusted balance of payments	Reported on sources and uses	Difference	Ratio	Balance of payments	Reported on sources and uses	Ratio
	(1)	(2)	(1)-(2)	(1):(2)	(3)	(4)	(3):(4)
All selected industries:							
1963	1,044	1,005	39	1.04	3,750	3,302	1.13
1964	1,897	1,957	-60	1.07	4,772	3,805	1.26
1965	2,551	1,861	690	1.37	4,423	4,111	1.08
1967	2,807	1,498	1,309	1.78	5,071	4,561	1.11
1968	2,029	1,378	651	1.47	5,793	5,383	1.07
Mining and smelting:							
1963	102	37	65	2.48	388	374	1.04
1964	100	42	58	2.37	612	514	1.20
1965	182	43	139	4.24	571	361	1.58
1967	418	63	355	6.49	740	641	1.15
1968	410	128	282	3.20	795	674	1.18
Petroleum:							
1963	820	700	120	1.16	1,024	1,016	1.00
1964	777	622	155	1.25	1,508	1,235	1.22
1965	1,016	754	262	1.35	1,830	1,528	1.20
1967	1,071	904	167	1.18	2,120	2,171	0.98
1968	1,237	1,090	147	1.13	2,449	2,520	0.97
Manufacturing:							
1963	723	238	485	3.04	1,341	1,172	1.15
1964	797	303	494	2.63	1,842	1,654	1.11
1965	1,344	1,001	343	1.34	2,022	1,702	1.19
1967	1,018	489	529	2.08	2,055	1,547	1.33
1968	442	201	241	2.20	2,019	1,083	1.87

1. See text for definitions of these items.

Sources and Uses of Funds, Nonfarm Nonfinancial Corporations

Revised estimates of the sources and uses of funds of nonfarm nonfinancial corporations are shown in the following table. The source for these statistics is the flow of funds accounts prepared by Board of Governors of the Federal Reserve System. Historical data back through 1946 (annually) and 1952 (quarterly) were published in the November 1969 Survey. The latest revisions affect the data only from 1967 onward, and bring the estimates of internal sources and of physical asset purchases into line with the revised national income and product data published in the July 1970 Survey.

Table A.—Sources and Uses of Funds, Nonfarm Nonfinancial Corporate Business, 1967-70
(Billions of dollars)

				1967				1968				1969				1970	
	1967	1968	1969	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II
	Seasonally adjusted at annual rates																
Sources, total.....	94.4	101.8	115.4	94.4	77.9	96.5	109.1	110.0	102.1	105.5	118.2	119.1	122.2	122.8	108.9	119.9	136.3
Internal sources.....	61.5	62.5	62.5	61.5	60.4	61.8	63.1	69.0	63.4	64.3	63.1	62.4	62.7	64.1	60.6	69.1	81.6
Undistributed profits.....	25.1	20.0	10.0	20.5	20.2	20.2	23.6	20.7	21.3	20.0	21.0	21.6	21.2	18.9	16.1	15.8	15.1
Corporate inventory valuation adjustment.....	-1.1	-3.3	-6.4	-1.1	-1.8	-1.4	-3.3	-3.4	-2.0	-1.9	-1.2	-3.8	-0.6	-3.2	-0.5	-5.6	-4.5
Capital consumption allowances ¹	41.5	44.9	48.0	40.3	41.0	41.0	42.8	43.7	44.7	44.2	45.7	45.8	47.0	48.3	40.1	50.1	51.1
External sources.....	33.0	47.3	58.0	32.9	27.4	35.0	45.0	61.0	37.8	45.5	55.0	56.4	59.4	58.7	48.2	50.8	54.7
Stocks.....	9.3	-1.8	4.3	9.9	1.0	2.8	3.6	1.3	-0.1	-1.0	-2.2	1.1	2.4	5.0	0.1	6.3	6.3
Bonds.....	16.7	12.0	12.1	13.6	13.7	17.4	14.0	11.5	12.4	12.1	14.6	14.0	12.5	10.5	10.7	13.0	22.7
Mortgages.....	6.0	5.8	4.3	5.4	4.3	5.1	5.3	4.0	4.0	5.0	2.6	4.0	4.4	3.8	4.2	4.8	4.3
Bank loans, n.a.c. ²	0.4	0.6	10.0	7.6	5.8	3.5	8.8	3.0	0.7	8.8	10.2	12.8	14.0	0.3	7.8	4.5	3.3
Other loans.....	1.4	3.8	0.2	4.0	1.1	-1.6	1.3	4.4	2.3	4.1	2.6	5.2	0.0	8.8	2.0	4.8	3.8
Trade debt.....	2.0	5.7	10.0	4.3	-1.5	1.5	4.9	8.8	-1.1	8.3	5.6	8.6	14.5	13.2	7.0	8.7	0.8
Profits tax liability.....	-4.1	3.7	1.8	-1.3	-10.7	-1.4	1.0	10.4	3.4	-1.0	2.3	5.0	-3.0	1.8	1.0	1.0	-1.2
Other liabilities.....	6.3	6.0	0.5	-1.1	7.9	5.7	7.2	8.2	7.8	8.0	5.7	5.0	0.5	0.7	7.4	15.1	8.8
Uses, total.....	85.5	103.5	111.2	81.2	70.4	90.5	99.9	103.5	93.7	106.5	111.3	113.0	114.8	112.1	104.6	114.2	111.1
Purchases of physical assets.....	72.0	76.9	87.0	71.2	65.6	71.3	74.3	71.3	77.9	76.7	82.4	83.7	85.2	81.9	83.3	84.2	83.7
Nonresidential fixed investment.....	62.3	67.5	75.0	60.1	61.8	62.4	63.6	60.7	65.2	67.3	70.7	73.0	75.5	70.1	76.1	70.7	80.2
Residential structures.....	2.3	2.4	2.9	1.4	2.4	2.0	2.7	1.8	3.3	2.0	3.4	3.2	3.6	2.3	3.4	3.0	2.3
Change in business inventories.....	7.3	7.0	2.2	0.7	4.3	0.8	8.0	2.8	8.6	2.4	8.3	0.0	7.1	8.5	0.7	1.6	1.3
Increases in financial assets.....	13.6	25.6	24.2	9.0	1.8	18.5	25.4	32.2	16.7	28.8	28.8	29.3	29.6	22.2	14.8	30.0	27.4
Liquid assets.....	0.0	10.1	2.2	-1.6	-8.9	5.1	5.2	13.7	8.5	13.7	4.5	6.0	4.2	-3.0	-1.6	4.2	8.6
Demand deposits and currency.....	-2.2	1.3	1.5	-4.2	-1.5	2.0	-5.0	7.1	3.0	-1.2	-4.3	3.8	1.7	-1.7	-1.1	-4.2	-1.9
Time deposits.....	4.1	2.0	-2.3	7.8	0.0	3.8	3.0	-1.8	-3.2	0.5	4.1	-7.2	-7.6	-10.8	-5.6	-7.7	11.4
U.S. Government securities.....	-3.1	1.8	-1.4	-6.5	-7.0	-1.0	1.3	7.0	-0.9	1.7	-1.3	0.1	-3.2	-3.8	-4.0	-2.0	-1.1
Open-market paper.....	1.5	4.5	6.7	3.0	-1.0	-1.2	4.1	1.1	6.9	0.2	4.7	2.0	11.7	13.1	7.3	14.4	2.2
State and local obligations.....	-1.4	1.4	2.3	-3.5	1.6	0.0	1.7	1.8	2.1	-2.0	1.3	2.4	2.7	1.2	3.7	-2.2	-2.1
Consumer credit.....	1.0	1.7	1.3	1.0	1.2	1.1	1.4	1.8	1.5	2.1	1.1	1.0	1.0	1.4	1.7	1.5	1.4
Trade credit.....	5.5	14.8	17.3	5.3	6.5	9.2	14.1	15.2	10.0	10.5	18.3	18.3	18.2	18.0	14.1	17.7	12.8
Other financial assets.....	3.5	1.1	3.4	3.3	2.9	3.0	6.0	1.5	-2.3	-3.5	4.0	1.4	0.2	5.3	1.7	0.5	4.0
Discrepancy (uses less sources).....	-9.0	-6.3	-7.3	-12.6	-7.5	-6.4	-9.2	-0.5	-7.4	-4.2	-6.9	-5.0	-7.4	-10.7	-4.9	-5.7	-5.3

1. The figures shown here for "internal sources," "undistributed profits," and "capital consumption allowances" differ from those shown for "cash flow," net of dividends, "undistributed profits," and "capital consumption allowances" in the gross corporate product table (p. 12 of this issue of the Survey) for the following reasons: (1) these figures include, and the statistics in the gross corporate product table exclude, branch profits remitted from

foreigners, net of corresponding U.S. remittances to foreigners; and (2) these figures exclude and the gross corporate product figures include, the internal funds of corporations whose major activity is leasing.

Source: Board of Governors of the Federal Reserve System.